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# INFORMATION REPORT

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SUBJECT Chinese Communist Purchasing Procedures,  
Hong Kong

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25X1

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1. There are in Hong Kong office representatives of three major Chinese Communist purchasing organs: The North China Import Company, East China Import Company and South China Import Company. These representatives reside permanently in Hong Kong but have not set up formal commercial organizations of their own. They work through established commercial firms and import-export companies, covering each transaction with separate contracts. There is one contract between the designated commercial firm and the seller of the product and another between the designated firm and the Chinese Communist organization which is the ultimate buyer. A Communist representative handles payment in foreign exchange as arranged in the contract.
2. The materials handled may include any supplies which are short and necessary in China. They are not limited to military items.
3. Apart from the resident representatives of import companies there are several purchasing agents who are occasionally sent by Chinese military regions to Hong Kong; but these do not stay long, traveling back and forth between Hong Kong and the mainland. Their purchases are chiefly military supplies specifically required by their own troops, e.g. gasoline, automobile spare parts, tires, radio supplies, etc. The volume of these purchases is not great. Again, the method of purchase is to utilize established commercial firms as agents with the Communist representative making payment in foreign exchange.
4. In addition to these two types of official purchasing representatives, numerous private firms in Hong Kong maintain direct or indirect contacts with purchasing organs inside China. Their procedure is to find out what commodities are urgently needed by the Chinese Communists and to quote a price through their head offices or associate firms on the mainland. They then apply for import clearances on items, for which they provide foreign exchange, and ship the commodities into China where their agents transfer them to the government. Certain firms in Hong Kong

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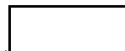
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-2-

sometimes make specific quotations directly to Chinese Communist organs without the step of utilizing an agent within China.

5. Although these imports are paid for in foreign exchange this foreign exchange must be converted within China into easily exportable commodities in order to avoid an unfavorable balance of trade.

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